221 planting; the rest are planted in winter wheat. Fertilizer from the household pit is spread on the fallow fields. The wheat is brought to maturity by careful hoeing and by hand irrigation using well water -- a back-breaking operation in which the farmer is helped by his whole family.

In April or May comes the time to plant his remaining fields in millet, kaoliang, or cotton; often he must irrigate to assure the germination of the seeds. It is then time to harvest the wheat, and once again the farmer calls on his whole family and often on his neighbors for harvesting, threshing, and winnowing, all done by hand with the greatest care to preserve every grain and the stalks and straw as well. Then the winter wheat land is planted in soybeans and corn. The farmer and his family may then slacken their pace, but not for long, for autumn brings the harvest of the summer crops, the fall plowing, and then the planting of winter wheat.

221 651 Autumn, too, is the traditional time for the tax collector to appear with his demands for taxes in money or in kind. And before the Communist abolition of tenancy, it was the time when the landlord was given a portion of his share of the crop.[3] If the weather had been favorable and the tax gatherer was not unduly rapacious, the farmer might retain enough grain to see his family through to the next harvest. If things had gone badly, a grim winter season lay ahead. Winter

3. For landlord-tenant relations in Anhwei, cf. Morton Fried The Fabric of Chinese Society, New York, 1953, pp. 186-200. The typical rent in 1947-48 was 40% of yield.

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was in any case the time for repairing farm implements, weaving thatch, repairing buildings, spinning and weaving rough cloth, and other household chores. With the approach of the New Year the farmer might look forward to some festivity, perhaps to slaughtering the family pig; if debts loomed large, the pig might have to be sold to help.[4]

The farmer's life in the Yangtze valley and below is similarly dominated by the need for the most intense toil throughout the year if his tiny plot of land is to support him and his family. Rice sets the rhythm and dominates the economy. Much of the rice culture of this area is on level plains, but in recent years the terraced fields have been pushed higher and higher up denuded mountains and hillsides. In the early spring, after the New Year, the farmer brings up his rice plants in nursery beds near the farmhouse. Then he prepares his fields by plowing and removing in some areas, his winter crop stubble. Fertilizer is carefully spread over the ground, and then the water is admitted; when the water reaches a certain depth the ground is carefully harrowed. The ground is now ready for the transplanting of the young rice from the nursery beds, and this back-breaking job, done while crouching in the water, completes the Spring work. Save for repeated cultivating and trampling of weeds, the farmer has an easier life during the ripening of the grain. As the grain ripens, the fields dry, and at last it is harvest time. The harvesting and threshing are again

4. J. L. Buck's study of 16,786 farms showed that 39 per cent of these were in debt in the period of 1929-32. Cited in Lang, Chinese Family and Society, New Haven 1946 p. 69.

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the work of all available hands and are done with primitive implements. The harvest in, the farmer must deal with the tax collector and then ready his fields for the winter crops; in some parts of the East China Region, this may be winter wheat and rape; in others, two rice crops are produced in a single agricultural year. The rice farmer like the wheat farmer in the north, uses the winter to work on tools, handicrafts, and repairs, and the women of his family may carry forward their raising of silkworms and the spinning and weaving of silk. In other areas tea is an important supplement to rice agriculture, [5] and fishing is a full or part-time activity of about a quarter of a million people in Chekiang and Fukien. [6]

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The farm year, toilsome in north and south alike, is punctuated by other activities and festivals which relieve some of the monotony of the long seasons of work. The first of the annual festivals after the New Year is that of Ch'ing-ming which corresponds in time to the Western Easter. Also like the Western Easter, it was once a Spring fertility festival. On this occasion the ties of the living and dead members of the family and clan are celebrated. Families often take picnics to the family or clan graveyard, make food offerings to the dead, sweep the graveyards, and then enjoy their feast. All relatives make special efforts to join in this annual celebration of family solidarity, and the outing is a pleasant relief from winter and indoor work. [7]

5. On agricultural year-cycle, see excellent description in Gerald Winfield, China, The Land and the People, New York 1948, pp. 34-61.

6. Cf. Geo. B. Cressey, Land of the 500 Million, New York, 1955, p. 127.

7. Wolfram Eberhard, Chinese Festivals, New York, 1942, pp. 113-127.

517 workers are required to participate in
656 organizational and cultural activities and to
668 attend technical and cultural classes. Since most workers hold membership in a number of Communist organizations, no time is left for private affairs.

668 2. High Taxation and Public Obligation.
656 High taxation and business restrictions are
[651] other unpopular Communist policies. In the rural districts, the Communist San Ting policy, formulated at the end of 1953, fixes a quota for farm production and for purchasing and marketing. Other measures which regulate the sale of farm surplus products -- mainly rice and cotton -- only to the centralized market, meet resistance. Businessmen are required to pay high taxes, pubchase bonds, and make "voluntary contributions." Other measures taken by the Communists to eliminate private business doubtlessly create great dissatisfaction among the people.

Public obligations imposed upon the people are also a cause for discontent. The peasant, for example, is called upon whenever his services are needed. For major irrigation projects, peasants are enlisted for work in distant areas. The service of the militia is necessary on many occasions, and so the young peasant is required to accept military training in his spare time. When he becomes a member of the militia, he must patrol the

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Annex "A," Subparagraph 3c,
Economic Background

TAXATION AND BUDGET

I. THE NATIONAL FISCAL SYSTEM

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Since Communist China is a unitary state, its fiscal policy is national in scope and has relatively few regional variations. Accordingly, unless otherwise indicated, what is said here of one region is often equally true in the other regions.

From the data shown in the tabulation below, certain facts are obvious.

1. During 1950-54, the revenue derived from the profit of government enterprises rose steadily from 12.76 per cent of the total government receipt in 1950 to 36.47 per cent in 1954. Moreover, profit is not the only contribution that government enterprises made to the government treasury. In the course of these years, they also contributed an increasingly large share of taxes which the Central People's Government (the Communist government) imposed upon industries and trade. This tendency is clearly shown in the following statistics.

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SOURCES OF GOVERNMENT RECEIPTS */

Year	Government-owned Enterprises	Government-participating Enterprises	Co-operatives	Farmers	Private Industries and Trade
			(combined)		
1950	-	-	34.08	- 29.63	32.93
1951	-	-	49.35	- 18.17	28.66
1952	-	-	56.33	- 17.08	22.36
1953	-	-	59.79	- 14.56	17.02
1954	65.24	3.65		1.66 14.23	13.34
1955	69.47	3.65		1.98 11.76	10.70

*/ (In percentage of the total annual receipt of the current year.)
Ching-chi Chou-pao [Economic Weekly], Feb. 26, 1953, p. 17; People's Daily, June 18, 1954, and July 10, 1955. The figures for 1955 are budgetary estimates.

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651 Unlike the usual practice in Western countries, the profits of government-owned concerns and enterprises in which the government participates, as listed in fiscal reports of the Communist government, include allowances for depreciation of assets, which according to the Western practice should not be included in net profit. At the same time, all the outlays of government enterprises for improvement and replacement are listed as government expenditures for economic construction. The procedure used by the Chinese Communists means therefore a substantial increase in both government receipts from its enterprises and outlays for economic construction.

2. During the five-year period ending 1954, the relative importance of the agricultural tax has been substantially reduced. In 1950, it accounted for 28.01 per cent of the total government expenditure. In 1954, the percentage declined to 13.33 per cent. The decrease was due to the rapid expansion of receipts from other sources (particularly profits from government enterprises and urban taxes) rather than to the reduction in the agricultural tax itself. This development therefore should be interpreted to mean that the tax on rural economy has not been reduced; it reflects merely that the increase of the agricultural tax has not been as rapid as the increase of other government receipts.

3. Similarly, the fact that the ratio of the taxes on industry and trade to the total government expenditure remained almost constant

651 during these years should not be interpreted to mean a constant tax burden imposed on these sectors of the Chinese economy. In absolute terms, their contributions have continually increased in order to meet the ever-expanding expenditure of the government.

On the whole, the fiscal policy of the Communist government has been more unfavorable to industry and trade than to agriculture. During the five-year period under consideration, private enterprise in industry and trade not only has had to bear a great burden of the increasing expenditure of the government, but also has been forced to accept stiff competition from government enterprises, which, according to the Communist policy, will ultimately monopolize all the important trade and industries in the country.

652 On the expenditure side, military outlay
659 constituted 41.5 per cent of total government expenditure in 1950 and 1951, respectively. After 1952, becuase of the truce in Korea, the relative importance of the military outlay has been substantially reduced. In 1954, it was only 21.1 per cent of the year's total expenditure. The outlay for economic construction has become the leading item on the debit side of the government account.

In making these comparisons, several qualifications should be noted. First, the military expenditures as listed in the records of the Communist government do not include salaries and maintenance of military personnel, which are classified as government administrative expenses. Military outlays listed in the

652 In the following sections, we shall examine at length certain phases of Communist China's fiscal policy during the first five years of occupation of Mainland China. They include the agricultural tax, the taxes on commerce and industry, and government bonds. As will be seen, the revenues discussed are all recurrent in nature. No attempt is made to study such non-recurrent levies as those imposed during the Five-Anti movement. Because of the extraordinary nature of these impositions, it is not likely that these measures can be successfully used again in the near future.

II. URBAN TAXATION

651 In Communist China, the core of urban taxation has consisted of the business tax, the tax on business income, and commodity taxes.

None of the trio is new in China. Under the Nationalist Government, the business tax was collected as a local tax, the tax on business income was a part of the income tax system, and the commodity tax constituted one of the main revenues of the Nationalist Government.

Under the Communist government, all these taxes were drastically reorganized, apparently under the influence of the Russian tax system, but there has been relatively little regional variation. From 1949 to date, the system of urban taxation has already undergone several important changes. Its history which may be divided into two stages, the first of which covers the period from January 1950 to Dec.1952.

651 During the first period, the industrial and commercial tax constituted the greater part of urban taxation. The tax was a composite levy consisting of an impost based on gross turnover and another on net taxable income. The "business tax" was collected on the basis of a proportional rate schedule. While the tax rates remained constant regardless of how the amount of the tax base changed, they varied according to the nature of the business or industry. The rates on manufacturing industries, for instance, were in general higher than those on undertakings which consisted only of sales of services (such as public utilities, professional services, hotel services, insurance banking, etc.). For undertakings deriving their income in the form of commission (such as trade agents, etc.), the rates of business tax were much higher than any of the other types of businesses mentioned heretofore.

In addition, the tax rates varied according to the nature of the commodity produced or handled by taxpayer. Those who deal in such commodities as are essential to the national economy are liable to a highter tax than those who are associated with the production of non-essential commodities. The business tax rate on the production of cigarettes, for instance, was much higher than the rate applicable to the iron and steel industry.

The characteristics of the income tax system, which was used early in the Communist

65/ regime and is still in effect, may be summarized as follows.

A. The income tax system in Communist China consists of a series of income taxes applicable to different types of income. Besides the agricultural tax, which may be considered as an income tax on agricultural income, there are income taxes on business profit derived from the earnings of business enterprises and on interest derived from bank deposits. Because of the disappearance of landlords under the Communist system, the tax on rent income is non-existent in the tax system of Communist China.

B. Like the Soviet system, and the traditional Chinese system as well, there is more differentiation in the Chinese Communist income tax than in the system commonly used in the West. There is, for instance, the differentiation in favor of military or industrial "heroes," and of earnings from industries against earning from commercial undertakings (particularly those derived from services, such as commissions, etc.).

C. Progressive rates used in the Chinese income tax are applied on the entire taxable income rather than progressively by income brackets.

D. Inventory valuation for income-tax purposes is computed on the basis of the

historical cost. This apparently means an unduly heavy tax burden on taxpayers at the time of rising prices by inflating net income.

E. Depreciation charges are computed on the basis of either the straight-line method or the method of constant percentage. In either case, the income tax will mean, under the condition of rising prices, a tax to be paid out of capital as well as current income rather than a genuine tax on income.

The second period in the history of Communist taxation of business and commerce began after December 31, 1952, when the "tax on commodity circulation," or the turnover tax, was introduced. This new tax is a composite levy consisting of parts of former commodity and business taxes. In many respects, it is also reminiscent of the turnover tax of the USSR. The introduction of the turnover tax brought the following changes in the system of urban taxation in Communist China. In the place of former commodity and business taxes, the turnover tax is applicable to the following 22 commodities: rolled tobacco, tobacco leaf, wine, wheat flour, furs and hides, cotton yarn, matches, phonograph records, acid, salt, chemical fertilizers, paper, newsprint, rubber tires, cork, cement, glass plates, metal and metal products, pig iron, coke and its products, and mineral oils and their products. After paying the turnover tax, producers and dealers in those commodities will be subject to no other commodity or business taxes so long as they circulate within the national boundaries

65/ of China. The exemption, however, does not apply to the custom duties if they are to be exported or to the income taxes to which such producers or dealers are liable. Nor would the payment of a commodity tax on raw materials exempt a product manufactured of such material from commodity tax, if the product were itself a taxable commodity.

Instead of the payment of tax as a product leaves its factory or additional taxation as each business transaction occurred, as was the case of the old commodity tax, the collection procedure of the turnover tax varies according to the nature of the commodity subject to tax. In the case where the sales are to be handled by government agent, the turnover tax is payable when the commodity is sold or transferred from its producers to such sales agent. In the case where the sales are done by the manufacturer's own agent, the tax is payable at the first sale of the commodity at the wholesale level, or its transfer from producer to the sales agent. In the case where the sale of product is handled by neither a government agent nor that of its producer, but by the producer himself, the tax is payable at the time when the product leaves the hand of its producer. In the case where the taxable product is not for sale, but for further processing or use in some other departments of the producing factory, the turnover tax is payable when the commodity leaves the producing department. In the case of forestry products, the tax is paid by the purchasers at the time when the products are being shipped from their point of origin. In the case of an imported commodity,

65/ the turnover tax is collectible by the customs together with customs duties at the point of importation. In the case of an export commodity, the tax is collectible at the time of export.

Which of the above-mentioned procedures of collection is to be applicable to a given commodity is to be decided by the government and not by the taxpayer himself.

Since the turnover tax is to displace both the commodity and business taxes, its rates are higher than those of either of these old taxes. The turnover tax rate on wheat flour has been raised to 10 per cent as against a rate of 3 per cent according to the old commodity tax. The new rate applicable to cotton yan is 22 per cent as compared to 12 per cent charged in the old commodity tax. With the exception of the turnover tax on beer, which is a specific levy, the levy on all other commodities is collectible on an ad valorem basis.

Many changes other than those mentioned above were made in the business taxation following the institution of the turnover tax. Among such changes, the following changes are probably the most important.

Under the new regulations, all the commodities produced within the country and not subject to commodity orto turnover tax as previously explained are liable to three business taxes -- one at the level of production, one at the wholesale level, and another at the retail level. All those subject to commodity or turn-

651 over tax are liable to two business taxes at the wholesale and retail levels. These regulations will be applied regardless of whether a commodity transaction is an inter-firm sale or merely an intra-firm transfer. As a result of these modifications, all the advantages of vertical combination, which were ample under the old system, are eliminated.

Before the tax reform in 1952, all the business taxes at manufacturing wholesale and retail levels were payable after the completion of the business transaction. After 1952, the business tax became applicable only to transactions in those commodities to which the new turnover tax did not apply. But, instead of collecting the tax after the completion of transactions, producers of such commodities are required, in addition to their own tax liabilities, to advance the tax payable by wholesale dealers to whom the products are sold. Such advances are later to be repaid by the wholesale dealers to the producers. Thus, under the new law the business tax on the wholesale dealer becomes collectible before rather than after the relevant business transactions are effected.[1]

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1. Cheng Chu-yüan Chung-kung Ts'ai-ching Cheng-ts'e Hsin Tung-hsiang [The New Tendencies of the Chinese Communists' Financial and Economic Policies], Hong Kong, 1953, pp. 73-77.

651 In the case of the commodities subject to turnover taxation, all the business taxes on retailers, under a similar arrangement, are to be advanced by wholesale dealers. The turnover tax and the changes in business tax therefore not only result in speeding up the collection of business tax, but also, through the concentration of tax collection at production and wholesale levels, reduce substantially the cost of tax administration.

The stamp tax and all surtaxes attached to the business tax under the old system were merged with the business tax under the new regulation. Under the new system, the rates of business tax fall into three categories. They are, those applicable to industries, those for commercial undertakings, and those applicable to incomes derived from sales of personal services. For the cases where the old rates fell within the range of 1 to 3 per cent, a new rate of five per cent is used. For the cases where the old rates ranged from 4 to 6 per cent, an additional one per cent is added in the new rate schedule. For the cases where the old rates ranged from 8 to 10 per cent, an additional two per cent is added to form the new schedule. For the cases where the old rates ranged from 12 to 15 per cent, a new flat rate of fifteen per cent is used.

Besides the institution of the turnover tax and the changes in business tax mentioned above, there are also important modifications in the system of commodity tax. Among these are the following adjustments.

651 Twenty-two of the commodities formerly subject to commodity tax are under the new regulations subject to the turnover tax.

Fifteen news items are included in the modified system of commodity tax, the most important of which is foodstuffs. In the place of the old transaction tax, foodstuffs are subject to commodity tax under the new system. This adjustment contributed substantially to widening the bases of commodity tax.

Several silk textile products which were formerly subject to commodity tax are now exempted from the tax. In addition, several other minor adjustments in commodity classifications have also been made with a view to simplifying the tax administration.

In the place of market price, commodity taxes under the new system are assessed on the basis of the relevant wholesale prices as quoted by government sales agents. For the commodities for which government quotations are not available, the market price is used as the basis of the tax assessment. Under the old system, the commodity tax was assessed by the means of the following formulas:

$$\frac{\text{Market price}}{1 - \text{Tax rate}} = \text{Price subject to tax}$$

The price subject to tax X Tax rate = The amount of tax.

The purpose of using these formulas was to avoid the inclusion of the tax in the price upon

651/ which the commodity tax rate is to be applied. Under the new system, the commodity tax rate is applicable directly to the price quoted by government enterprise, and the price includes the cost of tax. The commodity tax assessed on this basis is apparently higher than that which was derived from the old formula.

Other important changes in the system of urban taxation effected at the end of 1952 are as follows:

A portion of the stamp duties was transferred to be collected as turnover tax, commodity tax, or tax on butchery. The business taxes and stamp tax payable by butchers merged under the new system with the butchery tax. The transaction tax on foodstuffs was absorbed into the new system of commodity taxes. The transaction tax on cotton was combined under the new system with the turnover tax on textile products.

All the levies on real estate were merged into a single tax on real estate.

It is clear that one of the objectives of tax reform in 1952 was to transfer, wherever feasible, all the old taxes on gross business receipts, the commodity taxes, the transaction taxes, stamp duties, etc., to the newly instituted turnover tax system. In the cases where such transfers were not practicable, these levies are collected as far as possible under the system of commodity taxes. Only in cases where neither transfer is feasible do the old taxes on business or turnover continue to exist. Whenever

605/ conditions permit, the regular tax and surtaxes imposed by local authorities are consolidated into one single tax. In the case of the turnover tax, collections are made, as far as is adminstratively feasible, at the wholesale level or at the time when the taxable commodity leaves the hands of its producer. The main purpose for effecting successful reforms is to reduce the cost of tax collection and to improve the efficiency of its administration.

There is little change in the structure and collection of income tax.

III. THE AGRICULTURAL TAX

The system of agricultural taxation in East China is more complicated than the system in North China. Instead of a uniform system of proportional taxation as is the case in North China, all three forms of the agricultural tax which have been in use in Communist China are, or at any rate were, found in these provinces. The proportional tax, similar to the one used in North China, is now in force in the province of Shantung, and the two systems of progressive taxation, one for the "newly liberated" areas in which land reform has been completed and another for such areas without land reform in progress, were used in other parts of China, in accordance with the land system in existence.

The collection-in-kind system, the failure to tax incomes other than crop yields,

65/ the failure to allow for costs other than those of manual labor, and the administrative difficulties arising from the absence of a reliable census and statistics, are all applicable to the progressive-rate system as it is used in East China.

Where the agricultural tax in East China is on a progressive rate basis, it is levied on aggregate taxable income; it does not use the system of progression-by-bracket. It is conceded by authorities on public finance that the former progressive system is inferior to the latter one, although it does have the advantage of simplicity in administration as compared with the second system.

Because of the complexities involved in progressive taxation, the absence of reliable agricultural and population statistics necessarily mean more injustices in East China than in North China, where the simple proportional tax rate is used. This difficulty is heightened because the tax rates of East China progress not on the basis of gross income per household, but on the income per farm hand as defined in the tax law. The enforcement of such a complicated system calls not only for statistics on agricultural production but also for statistics on rural population. But in China these data are woefully inadequate.

Since most of East China was "liberated" during the year 1949 and land reform has since been completed, with the exception of the regions where the proportional tax is still in use, the progressive tax applicable to the newly "liberated"

1:Stanford U. S-4,5 1956 AF15 East China AF15

651 areas where land reform has been completed probably prevails.

In East China, rice paddies rather than dry farms are cultivated as a rule. Because of the amount of manual labor involved, the cost of production is normally higher for rice paddies than for dry farms, and for this reason the failure to allow for cost of production in reckoning the taxable income is particularly serious to farmers in East China.

IV. GOVERNMENT BONDS[2]

652 Since the Communist Government came into power in 1949, two issues of government bonds have been made, the first issued in 1950 called the People's Victory Bonds and the second in 1954 called the National Economic Construction Bonds. The first issue had an authorized amount of 200 million fen ( ), of which one half was issued in 1950. The fen is a commodity unit consisting of a total of 6 shih chin of rice, 1.5 shih chin of wheat flour, 16 shih chin of charcoal, and 4 shih chin of undyed cloth. The Jen-min-p'iao (JMP: People's currency) price of each of these constituent commodities is determined on the basis of the weighted average of the prices of the commodity prevailing in Shanghai, Tientsin, Hankow, Canton, Sian, and Chungking, using the weight of 45, 20, 10.5 and 10, respectively. The JMP price of the fen is represented by the sum of the values of its constituent commodities. All subscriptions, redemption, and interest payments on the bond issues have been made in JMP on the basis of

2. Based on reports published in Economic Weekly, Jan. 19, 1950, pp. 12-16. [807]

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TWO

Politics and Population

The Political Status of the City

648 In its physical aspect and in its economic organization, Shanghai was, and remains, largely Western. Foreigners governed most of the city. Yet the soil remained Chinese, and the legal or treaty powers of the foreigners were limited.[1]

The terms of the Treaty of Nanking in 1842 (between China and Great Britain at the close of the Anglo-Chinese war of 1840–1842*), which opened Shanghai, Ningpo, Foochow, Amoy and Canton to foreign trade, did not deal with the conditions of administration at the ports, and these were left to be negotiated separately. At Shanghai, negotiations in 1843 with the local Chinese officials established the right of foreigners to lease land within a small area set apart for the purpose outside the walls of the existing Chinese city. China remained sovereign at least in theory over the whole of Shanghai, and in effect delegated certain rights and powers to foreigners. The area of the foreign leaseholds was expanded by successive agreements with the local Chinese officials until it covered the greater part of the conurbation which developed at Shanghai, exclusive of the original walled city, but the administrative powers of the foreign government of this area remained tenuous.

633 The Shanghai Municipal Council, the chief organ of the foreign government at Shanghai, had the responsibility, granted by agreement with the Chinese officials, of maintaining order within the International Settlement, and this was taken to include policing and the maintenance of public works such as roads, drains, lighting, and later water, gas and electric services as these were developed. Powers of taxation, however, remained an unsolved issue until as late as

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* Similar treaties were quickly negotiated by the other European powers and by the United States. See below, Chapter Five.

[p. 15]

2: Murphy G-4 (no date) 1953 AF15 East China AF15

633 651 1899, when it was finally agreed (largely as a result of diplomatic pressure) that no Chinese taxes could be collected within the foreign settlements except maritime customs dues (administered by an organ of the Chinese Government staffed by foreigners and Chinese) and the land tax (since the land remained Chinese property), while the Shanghai Municipal Council was free to tax both foreign and Chinese residents of the Settlement.

648 701 Neither the Shanghai Municipal Council nor the foreign consuls at Shanghai were ever legally empowered to hinder the passage of Chinese troops through the foreign settlements, although Chinese troops were successfully excluded by *force majeure* and diplomatic bluff from the time of the first threat to the foreign settlements at the so-called Battle of Muddy Flat in 1853.* However, all of the Western powers having treaty relations with China claimed the right to land their own troops in the Settlements for the protection of the property and lives of their citizens. While this right was never formally enunciated in any treaty or agreement, it was practised on numerous occasions when troops landed from foreign warships in the harbor joined the Shanghai Volunteer Corps in defending the Settlement. The foreign settlements were never invaded by a hostile force (although bombs and shells landed there in 1932 and 1937), nor occupied by Chinese troops, from 1853, when the Volunteer Corps was formed, until Japan's assault on China engulfed all of the city after Pearl Harbor in 1941.

648 692 The most important right of the foreigners at Shanghai was extraterritoriality, which placed citizens of all powers having most-favoured-nation agreements with China under the jurisdiction of their own national laws wherever they went within China. This principle was first enunciated in the Treaty of Wang Hsia between China and the United States in 1843, and the law was in practice administered to foreigners by their own consular courts. Extraterritoriality gave the foreigners advantages in business and in security of person and property; at Shanghai it was the only solid legal basis

* An incident in the Taiping Rebellion (1850–1864), when Shanghai was for long periods surrounded by rebel or imperial forces. On this occasion, the foreign residents of the city, aided by crews from their ships in the harbor, cleared out a large encampment of imperial troops which had been established within the Settlement boundaries. See F. L. Pott, *A Short History of Shanghai* (1928).

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of real significance for the existence of the city as a foreign enclave. (All special rights of foreigners in China, including extraterritoriality, were renounced by the treaty powers in 1944. Shanghai is now governed as a single unit by the Communist administration.)

The practice at many other treaty ports in China differed. At some, outright territorial concessions were made to each important foreign trading power; at others, the Chinese authorities established "international settlements" where foreigners might purchase land; at others, as at Shanghai, certain areas were reserved for foreign leasing (and later foreign purchase), with title deeds issued by the Chinese Government. Altogether, more than forty such treaty ports were established in China (some of them in fact inland centers far removed from navigable waterways), and administrative practice differed widely among them. The one common feature of all the treaty ports was that goods entering the "port" were exempted from all further taxation on their domestic movement by the payment of one inclusive tax. This provision was intended primarily to expedite the foreign trade of the treaty ports, but it also acted to encourage the movement of domestic trade through these cities with the streamlined tax system as compared with the multiplicity of local taxes which otherwise interrupted the movement of goods within China.

At Shanghai, there were three independent political units (map 3). First, the original Chinese city, to which were added, as the city grew after its opening to foreign trade, areas of predominantly Chinese occupancy outside the limits of the foreign settlements. This Chinese area was governed by the local Chinese county authorities until 1928, when the Nationalist Government established the Municipality of Greater Shanghai (map 5), a new administrative unit covering all of Shanghai outside the foreign settlements, responsible directly to Nanking and independent of local authorities. (It totalled 320 square miles, most of which remained open rural country outside the conurbation.) Second, the so-called International Settlement, which had originally been British and which was opened to all foreigners in 1854. This was the largest and most populous single political unit within the conurbation, and it included the city's commercial core, most of its manufacturing, and most of its shipping frontage. Third, the French Settlement, usually miscalled the "French

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not employ their own agents.[11] At Shanghai, Consul Balfour found himself unwittingly involved in an attempt to create a local Cohong when after some difficulty in finding a house available for leasing as the consular residence on the day after his arrival in November 1843, he accepted the offer of a prosperous Chinese gentleman. His landlord leased him a large house in the Chinese city, and then established himself in the gate house where he carefully observed the comings and goings of his tenants. When Balfour was approached by his host on trade matters, it was revealed that the gentleman was a prominent Shanghai merchant and that by agreement with the taotai he had planned to acquire a monopoly of trade with the foreigners and to keep them conveniently under supervision in polite house arrest. Balfour quickly made other housing arrangements, and in 1846 moved the consulate to quarters rented outside the city in the foreign leasehold.[12]

By the end of 1843, eleven foreign trading firms were in business at Shanghai, most of them branches of British and American firms originally established at Canton. The new conditions under which they now operated were unique in the history of the China trade. Escape from the Cohong meant moreover a large saving in customs duties. Average total duties per ship exacted at Canton between 1800 and 1840 were estimated by the foreign merchants at 240,000 taels, of which 200,000 taels represented officially connived-in "squeeze." (The tael was a unit weight of pure silver which remained fairly constant from 1800 to 1860 at the equivalent of seven shillings.) At Shanghai the merchants estimated in February 1844 that since the port had been opened average total duties per ship had been 50,000 taels, of which only about 15,000 represented "squeeze."[13] During 1844 a total of 44 foreign ships entered and cleared the port, and by 1855 the figure had risen to 437.[14]

The three great trade commodities of this period were tea, silk, and opium (tables I and II), and for all of them Shanghai was advantageously located. The major silk-producing regions of China lie in the lower Yangtze basin. Tea for export was grown primarily in the belt of hills which forms the Yangtze divide on the south, and waterways connected the northern slopes of this region (where

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494 505 average per-ton costs over similar distances in the same areas for ordinary goods of about £12 (US$.30 per ton/mile).[15] Tea and silk required special handling, and neither was supposed to get wet or to touch the ground during its transport.* These rates compare with an average of about £14 per ton for tea and silk over similar distances by water transport.[16] Shanghai's water connections were thus a vital advantage in securing for it the lion's share of foreign trade in these two leading commodities. Robert Fortune estimated in 1848 that transport costs for tea from the hinterland to Shanghai averaged about 50 per cent of total costs to that point, while he estimated the figure for Canton at 70 per cent.[17]

651 A desire on the part of the Ch'ing Government to continue the diplomatic and economic advantages resulting from the monopoly system of the Canton Cohong was apparently combined with a desire for increased revenue from the newly expanded trade with the foreigners in a movement to tax tea and silk exported via Shanghai at the same rate as would have been applied if these had moved out via the much longer route to Canton. The resulting Imperial Edict of 1845 ordering the imposition of extra transit dues on this basis had, however, only a nominal effect, since the locational advantages of Shanghai meant that the saving in transport costs and interest charges on tea and silk shipments more than made up for the additional dues.[18]

[945] 505 487 Map 9 shows the major tea-producing areas of China in the nineteenth century. The Yangtze itself runs through the northern part of the area producing the best quality teas, and its tributaries and the Chientang River (with its mouth at Hangchow, from which multiple waterways lead to Shanghai) drain most of the remainder. In spite of its river connections into this area, Wenchow was not a major tea exporter. This was certainly due in part to its relatively late opening to foreign trade, but that fact is in itself related to the high relief in Wenchow's hinterland, through which interrupted navigation provides the only adequate means of trans-

482 *For overland transport, they were carried in special frames mounted on porters' backs, with a supporting stick attached so that the load could be rested without being set down on the ground. For water transport, special care was taken to see that tea and silk were kept in clean dry holds or securely under cover. See Robert Fortune, *A Journey to the Tea Countries* (1852); Richtofen, *Letters to the Committee*.

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picked as a rule three times a year: in April, May, and September, so that the bulk of export shipments comes during the summer high-water period, but occasional picking and regular shipments from the collecting centers continue through most of the winter. The stream pattern is better developed in the northern highlands than in the southern, and it focuses ultimately on Shanghai, either directly via the Yangtze, or via Hangchow. The less well developed stream pattern of the southern highlands drains to at least five separate ports, each in its own isolated river basin.

Along these streams, as along all of the rivers in China, successive trading centers developed at each break in navigation necessitated by rapids or by a change in the depth of the water where junks gave way to sampans or sampans to bamboo rafts. More of these trading centers which acted as collection places for tea are located north of the divide than south of it, and they naturally tended to ship their teas to northern ports for export, although the normal routes were occasionally abandoned in favor of roundabout routes in order to avoid excessive local transit taxes or arbitrary dues, as for example the shipment of tea from the upper Chientang basin overland to Ningpo and thence by sea to Shanghai.[23]

The cargo capacity of the boats, and hence the freight rate from these local centers to larger regional collecting centers, varied sharply with seasonal changes in the water level. In a tea area approximately 150 miles up the Chientang River from Hangchow in 1870, rates for transporting 100 chests of tea to Hangchow varied during the year from Mex$20 in summer to Mex$50 in winter.* During the summer the average time for tea in transit to Hangchow was five days, as against ten days in winter, while goods moving from Hangchow to the area in question took about twenty days at all seasons.[24] The use of water transport in this case is clear from the fact that these rates and transit times follow so closely the conditions of stream navigation, and are the only ones quoted for the tea trade in this area.

W. H. Medhurst in the account referred to above in Chapter Five commented on the fact that tea, at that time marketed entirely by Chinese merchants at the treaty ports, moved to Shanghai from the

*Mex$1 at this period equaled about US$.80

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engulfed every other delta city of importance. It was from Shanghai that the famous "Ever Victorious Army" (composed of both Chinese and foreigners led by the American Frederick Ward and, after his death from wounds, by the British Major Charles ["Chinese"] Gordon) conducted its decisive campaigns on behalf of the Ch'ing government against the Taipings and retook all the delta cities before the eventual recapture of Nanking in 1864. Shallow-draft boats carrying both bombardment guns and troops and using the pattern of delta waterways leading from Shanghai gave this army a crucial advantage of mobility against the numerically greatly superior Taiping forces.

Shanghai's land and speculative boom and the defense of its boundaries during this period are briefly discussed above in Chapters One and Two, but two other results of the rebellion were of greater significance: the establishment of the Imperial Maritime Customs, with the commercial advantage which this gave to Shanghai (see below, Chapter Eight); and the damage to the tea and silk industries (which were concentrated in the delta and its immediate environs) together with the blocking of the normal trade routes, which was followed after 1862 by new opportunities for the expansion of a more diversified trade. Shanghai suffered substantially from the losses inflicted on its trade in these two key commodities. But the pliability of the Ch'ing government, in recognition of the fact that foreign military assistance from Shanghai was instrumental if not decisive in the suppression of this mass rebellion, played its part in the granting of free navigational rights on the Yangtze, more from apprehension than from gratitude. The foreigners, undismayed by the illogicality of their position from a diplomatic point of view (British naval and land forces were attacking Taku and Peking at the same time that British forces were fighting against the Taipings in the delta area), were encouraged by their military successes to press their demands for wider commercial opportunity. The rebellion revealed Shanghai's vulnerability as long as its trade was so heavily dependent on the two local or semi-local staples of tea and silk, and at the same time re-emphasized possibilities for a broader and larger trade in the Yangtze valley as a whole. Though the trade in tea and silk recovered rapidly after the fighting (see table I),

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Shanghai as a Transshipment Point

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The figures of the Maritime Customs are one of the few oases in the statistical desert of the Chinese economy.* The Chinese city at Shanghai was held by rebel forces during 1853 and 1854, and in the impotence of the Ch'ing customs officials, customs dues were collected on behalf of the Ch'ing government by the British and American consuls from their own nationals. Out of this temporary expedient grew the Imperial Maritime Customs (after 1911 called the Chinese Maritime Customs), an organ of the Chinese government headed by a British Inspector-General and staffed by both Chinese and foreigners.[8]

The advantages of this development for the foreign firms at Shanghai were great. Difficulties, and financial losses, inevitably involved in dealing with the native (original Chinese) customs had been frequent sources of complaint, despite the improvement over conditions in Canton (see above, Chapter Five). Like most official institutions in the declining years of Ch'ing, the customs was not only riddled with corruption, but thoroughly inefficient, and in any case neither capable nor disposed to expedite the foreign trade of the port, which was so largely in foreign hands and for foreign profit. The Taiping Rebellion provided the occasion for the removal of this obstacle, and the delay, red tape, squeeze, and cumbersomeness of the old system were replaced by a new body, which though hybrid was geared to the needs and techniques of the European trader. The change also redounded to the benefit not only of the Chinese in Shanghai, who increasingly shared in creating and profiting from the commercial expansion of the city which the new customs service facilitated, but to the whole of the Chinese economy where the stimulus of Shanghai was more and more being felt. The Maritime Customs represented a major step toward the creation of conditions under which Western-type

* The "Annual Reports and Returns of Trade," published every year from 1864 to 1941 for each of the treaty ports, itemize the imports and exports of each port and give figures for original exports, re-exports, coasting trade, and the origin and destination of imports and exports at each port. The Reports also give considerable information on trade and industrial developments in each province and treaty-port area, including the sources of the major trade goods of each port.

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651 commercial growth, Shanghai in the van, could prosper with accelerating vigor.*

By 1864, offices of the new customs service had been established in all of the treaty ports, and its records of treaty-port trade are complete from that year. Maritime Customs figures for each treaty port, however, cover only the imports and exports to and from foreign countries, and the domestic coasting and river trade carried in foreign-built or foreign-type bottoms, whether Chinese- or foreign-owned (i.e., excluding junks, sampans, and rafts, but including lorchas, small sailing boats with a foreign-type hull and Chinese-type superstructure and sails). The trade carried in junks, sampans, and rafts, and the domestic overland trade, was the responsibility of the so-called "Native Customs," the original Chinese customs, which by the Boxer Protocol of 1901 was put under the control of the Maritime Customs at and within 15 miles of each treaty port. The figures of the Maritime Customs may be assumed reasonably accurate and complete for the categories which they cover, aside from smuggling, but the figures of the Native Customs are neither accurate nor complete. This is due in part to the inadequate numbers and inefficiency of the staff, and in part to the difficulty of regulating or measuring a trade brought into the port by a multitude of large and small water craft or by coolie and cart transport as well as by rail and truck.†

438 Perhaps a majority of the trade between Shanghai and the rest of China which was carried by coolies and carts, or by sampans, rafts, and junks by sea or by the variety of inland waterways leading from the city, was not recorded. Customs officials and other observers have estimated that as much as a quarter of the total domestic trade of Shanghai was not recorded.[9] Maritime and Native Customs figures for Shanghai also omit trade passing through the port on "trans-

* The steady revenue derived from Maritime Customs became a most important financial support of the Ch'ing government, in time its leading source of revenue, and thus made it dependent on the continuance of trade. Customs revenues were also used repeatedly as security for foreign loans and indemnities, symbols of the commercial and political processes at work. Thus was imperial China confounded by the merchants of the West.

† Complete statistical records of the Native Customs are unfortunately not available in this country.

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surplus began at this period to move to Shanghai and has continued to do so.

Grain shipments on the Grand Canal from the delta to Peking had actually become insignificant after the Taiping Rebellion (1850–1864), and ceased entirely in 1901. Sea transport of rice was substituted until 1911, but it never brought from the delta to Peking more than a small fraction of what had previously moved by the Canal. During the nineteenth century, Kiangsu and Chekiang had yearly quotas of tribute rice shipments to Peking of over one million piculs each, totalling for both over 320 million pounds,[47] or about one-third of the annual rice consumption of Shanghai alone in the 1930's. However Morse suggests [48] that the rice actually collected (much of which never got to Peking) may often have been six times the official quotas.

The population of Peking did not decline after 1911, since the city remained the seat of a northern warlord regime and became China's largest rail junction, especially with the economic development of Manchuria. Its estimated population total in 1936 was 1,400,000, in all likelihood the highest figure it had ever reached, as compared with about 800,000 in 1900. But it was no longer the seat of a court, garrison troops, and an extensive bureaucracy, recruited from all over China including the rice-eating south, and with power to command shipments of tribute rice, which made up part of many official salaries. After Peking ceased to function as the imperial capital, its population subsisted primarily on the millet and wheat readily obtainable from north China, while the flow of rice from the Yangtze delta followed economic rather than imperial dictates.

It does however seem possible that rice surpluses in the delta available for urban consumption have been greater since the twentieth-century growth of Shanghai (and of its many urban rivals in the delta) than during the imperial period. The following paragraphs suggest one explanation of this. Another might be that local farmers had less incentive to produce rice when most or all of the surplus went to Peking as tribute, or was absorbed as "squeeze," than when they could sell it in a reasonably free market for consumption in Shanghai.

In the early years of the foreign settlements when foreigners were

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1930's, or about half of the large-scale mechanized soap factories in China. They drew 90 per cent of their raw materials from domestic sources. Lye (potash) was obtainable from plants in Shanghai. Vegetable tallow and vegetable oils (most importantly, cotton, peanut, rape seed, sesamum seed, and castor) came to the city via the Yangtze system from the major producing areas of central China.[31] The fruit of the tallow tree is gathered in central China in October and the oil pressed out during the winter, but it is not marketed in Hankow and sent to Shanghai until the spring rise of the waterways leading to Hankow makes easy navigation possible. A dry spring makes the market soar in both Hankow and Shanghai.[32]

The average Shanghai price before the war was nevertheless substantially below that of foreign vegetable oil imports (despite the production of coconut oil in southeast Asia). Vegetable wax from central China also largely replaced foreign imports of paraffin wax after 1930, when the *likin* (internal customs tax) was abolished by the Kuomintang government. The cheapness of domestic tallow, oils, and wax in Shanghai relative to seaborne foreign imports was clearly related to the use of inland water transport in bringing these products to the city. The fact that 80 per cent of Shanghai's soap production in the early 1930's was marketed outside Kiangsu also suggests that the city's water connections with its hinterland were basic in locating the industry there. Only 10 per cent of the Shanghai soap industry's raw materials were imported, largely coconut and olive oils for making especially high-quality soap for the domestic market.[33]

By contrast, the Shanghai match industry was almost entirely dependent on overseas sources for its raw materials. It imported all of its sulphur (largely from Japan), all of its paper and cardboard (from Sweden), and all of its match-making machinery (from Japan). Most of its phosphorous was also imported, but some was produced locally from animal bones. Ample sulphuric acid was produced in Shanghai. For this product of such high unit-value by weight, raw materials to which so much value was added by manufacture could economically be imported, and the finished matches were marketed in every province of China.[34] Shanghai was never-

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staple supplies from overseas. Tientsin, Hankow, and to a lesser extent Tsingtao, could, however, use this improved Shensi cotton, and by the early 1930's, although the production of long-staple cotton had spread into all the cotton-growing provinces, more of it was grown in Hopeh and Shantung than in Kiangsu.[62]

A further factor was China's recovery of tariff autonomy in 1929. Up to that time, the tariff on most imported and exported goods was fixed by successive treaties between China and the major Western powers (beginning with the supplement to the Treaty of Nanking in 1843) at 5 per cent *ad valorem*. In practice the rates had varied between 3 and 10 per cent, but the average between 1843 and 1929 had been close to 5 per cent.[64] The new tariff of 1929 promulgated by the Nationalist Government in that year and revised in 1931, 1934, and 1935 imposed duties on the import of raw cotton and cotton yarn which varied considerably but which averaged about 17 per cent *ad valorem* between 1929 and 1935.[65] While Shanghai normally drew about 20 per cent of its raw cotton from abroad, Tsingtao, Tientsin, and Hankow respectively drew 93, 95, and 98 per cent of their raw cotton supply from domestic sources by 1930.[66] The average price of raw cotton in Shanghai by 1935 was about 10 per cent higher than in these three other centers, and nearly 90 per cent of the new building in the cotton textile industry in that year was elsewhere than Shanghai, although Shanghai still contained 51 per cent of the cotton spindles in China in 1936, and although total production costs for cotton spinning were still about 10 per cent lower in Shanghai than in any other Chinese city.[67]

This may prove to have been only a temporary disadvantage, since in the face of higher duties on imported raw cotton after 1929, and currently of China's desperate attempts to become independent of foreign imports, steps have been taken to increase the production of long-staple cotton, especially in Kiangsu where Shanghai manufacturing is so heavily dependent on it. The work of the Cotton Industry Commission of the National Resources Commission during the 1930's indicates that the goal of complete self-sufficiency in all types of cotton was realizable within five or ten years, under an effective administration.[68] Recent reports from China suggest that domestic cotton production, while still inadequate to supply Shang-